

# **CLARK COUNTY**

## **INVESTMENT POLICY**



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**Clark County Treasurer**

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# **CLARK COUNTY INVESTMENT POLICY**

## **I. Policy**

It is the policy of the Clark County Treasurer to invest public funds in accordance with all federal, state, and local governing statutes. The Clark County Treasurer will invest public funds in a manner that preserves capital and ensures the protection of investment principal, allows adequate liquidity for the County and its junior taxing districts, and achieves the highest investment return consistent with the primary objectives of safety and liquidity.

## **II. Scope**

This investment policy applies to all financial assets held or controlled by the Clark County Treasurer other than trust fund assets held by third parties. This includes funds where the Treasurer is the Treasurer or ex-officio Treasurer or other agencies that have signed inter-local agreements with Clark County to have this function performed on their behalf. Examples of funds include General Funds, Special Revenue Funds, Capital Project Funds, Enterprise Funds, Debt Service Funds, Insurance Funds, Transportation Vehicle Funds, and Agency Funds. These funds are administered by Fund Managers representing school districts, fire districts, port districts, as well as the County. In addition, any new fund created by the governmental entity shall comply with this policy.

Fund Managers can either request the Clark County Treasurer invest their jurisdictions' money in the Clark County Investment Pool (Pool), or request that the Treasurer purchase an investment with a specific term and amount.

## **III. Prudence**

The Clark County Treasurer and authorized investment officers will perform their duties in a manner consistent with the standard of a “prudent person,” as defined by RCW 43.250.040.

“In investing and reinvesting moneys in the public funds investment account and in acquiring, retaining, managing, and disposing of investments..., there shall be exercised the judgement and care under the circumstances then prevailing which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not in regard to speculation but in regard to the permanent disposition of the funds considering the probable income as well as the probable safety of the capital.”

Authorized investment officers (see Delegation of Authority) acting in accordance with this policy and exercising due diligence shall be relieved of personal responsibility for credit and market risks encountered in the performance of their investment duties. Due diligence requires timely reporting of material deviation from expectations and such other actions to control adverse developments as may be possible in consideration of the particular circumstances and within other provisions of this policy.

#### **IV. Objective**

The primary objectives, in priority order, of investment activities shall be:

- 1. Safety:** Safety of principal is the foremost objective of the investment program. This objective seeks assurance that principal losses are minimized, whether from securities default, broker/dealer default, or erosion of market value. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.
- 2. Liquidity:** The investment portfolio shall remain sufficiently liquid to enable Clark County and its junior taxing districts to meet all operating requirements that might be reasonably anticipated.
- 3. Return on Investment:** The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and the cash flow characteristics of the portfolio.

#### **V. Delegation of Authority**

Authority to manage the Clark County Investment Program is derived from the Revised Code of Washington (RCWs) in RCW 36.29.020 which delegates, in part, as follows:

- The Treasurer may invest funds in qualifying investments when authorized by the governing bodies of the relevant municipal corporations or by the County Finance Committee.
- When not already authorized by statute or the Board of County Commissioners, and/or the governing bodies of the relevant municipal corporations, the County Finance Committee authorizes the County Treasurer to invest any remaining funds in accordance with this investment policy.

The Clark County Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls and procedures to regulate the activities of all staff in investment matters. The Treasurer shall recommend policy changes, as appropriate, to the County Finance Committee and shall be charged with implementing such policy and subsequent policy changes in a timely, prudent, and effective manner. To “ensure effective cash management of public funds,” (RCW 43.08.015) the Treasurer may designate investment officers who will have the authority to perform the duties of the treasurer.

The Treasurer hereby delegates to the Deputy Treasurer the responsibility for

recommending any changes, deletions and/or additions to policy direction, internal control mechanisms or modification of the investment procedures.

The Treasurer hereby delegates to the Finance Manager the overall management of the internal and external control aspects associated with assuring that the investment activities are conducted in a manner which safeguards the County and Pool's capital.

The Treasurer hereby delegates to the Asset/Liability Manager the responsibility of supervising the investment activities on a daily basis, to ensure that transactions are conducted in a manner that safeguards the investment assets of the County and the Pool participants.

The Treasurer hereby delegates to the Finance Officer responsibility for performing all analytical assumptions for developing investment strategies consistent with economic, market, and liquidity factors to assist in guiding investment activities. This individual is also responsible for managing the investment portfolio, ensuring that all tasks are performed to account for and safeguard investments.

## **VI. Ethics and Conflicts of Interest**

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution of the investment program, or that could impair their ability to make impartial investment decisions.

Employees and investment officials shall disclose annually to the Prosecuting Attorney any material financial interests in financial institutions that conduct business within the jurisdiction, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the Clark County Investment Portfolio.

The County Finance Committee will file personal financial disclosure forms annually, with the Public Disclosure Commission consistent with the provisions of RCW 42.17.

No officer or employee of Clark County may receive, accept, take, seek, or solicit, directly or indirectly, anything of economic value as a gift, gratuity, or favor from a person if it could be reasonably expected that the gift, gratuity, or favor would influence the vote, action, or judgement of the officer or employee, or be considered as part of a reward for action or inaction. RCW 42.52.140

## **VII. Authorized Financial Dealers and Institutions**

The Treasurer will maintain a list of broker/dealers and financial institutions authorized to provide investment services to the County who are in compliance with Washington State and U.S. Securities and Exchange Commission. Authorized broker/dealers and financial institutions will be limited to those that meet one or more of the following:

- financial institutions approved by the Washington Public Deposit Protection Commission (RCW 39.58); or,
- primary dealers recognized by the Federal Reserve Bank; or,
- non-primary dealers qualified under U.S. Securities and Exchange Commission Rule 15C3-1, the Uniform Net Capital Rule, and who are a certified member of the National Association of Securities Dealers.

Each authorized dealer or institution will regularly submit annual reports, including audited financial statements, and other information as determined by the Treasurer.

All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the following as appropriate:

- audited financial statements,
- proof of National Association of Securities Dealers (NASD) certification,
- a signed trading authorization form,
- proof of registration with the state of Washington, and
- a completed Broker/Dealer questionnaire and certification of having read Clark County's Investment Policy.

Qualified broker/dealers and financial institutions will be reviewed and selected by the Treasurer on a routine basis. This includes a periodic review of the financial condition and registrations of qualified bidders. Current audited financial statements are required to be on file for each financial institution and broker/dealer in which Clark County invests.

### **VIII. Authorized and Suitable Investments**

Eligible investments are only those securities and deposits authorized by statute (RCW 36.29.020, 36.29.022, 39.58.050, 39.59.020, 39.59.030, and 43.84.080).

The Treasurer may invest in any investment authorized by law for the treasurer of the state of Washington or any local government in the state of Washington (RCW 39.59.020). The following investments are representative (not inclusive) of the permitted securities:

- 1. U.S. Treasury obligations.**
- 2. U.S. Government Agency obligations, U.S. Government instrumentality obligations, or of government sponsored corporations** that may become eligible as collateral for advances to member banks as determined by the board of governors of the Federal Reserve, which may include, but is not limited to the following:
  - Federal Farm Credit Banks (FFCB)
  - Federal Home Loan Bank (FHLB)
  - Federal Home Loan Mortgage Corporation (FHLMC)
  - Federal National Mortgage Association (FNMA)
  - Student Loan Marketing Corporation (SLMA)
  - Government National Mortgage Association (GNMA)

- Export/Import Bank
  - Maritime Administration
  - Small Business Administration
3. **Banker's Acceptances** purchased on the secondary market rated with the highest short-term credit rating of any two Nationally Recognized Statistical Rating Organizations (NRSROs) A-1, P-1 or F-1, at the time of purchase.
  4. **Commercial paper** purchased on the secondary market with the highest short-term credit rating of any two NRSROs A-1, P-1 or F-1, at the time of purchase. It must also meet the requirements of the State Investment Board (RCW 43.84.080 (7)).
  5. **Non-negotiable Certificates of Deposits** can be purchased with financial institutions qualified by the Washington Public Deposit Protection Commission.
  6. The Treasurer may invest in **Repurchase Agreements** only with primary dealers who have a long-term credit rating of "A" or better by two NRSROs, if the final maturity of the repurchase agreement is less than one week. The third-party custodian must also maintain an "A" long-term credit rating. If the final maturity of the repurchase agreement is longer than one week, the primary dealer and the third-party custodian must maintain an "AA" long-term credit rating or better by two NRSROs. Clark County must enter into a Bond Market Association (BMA) Master Repurchase Agreement and third-party custodial contract which specifies terms and conditions of the repurchase agreement.
    - a) The third-party custodian will act as trustee solely on behalf, and at the direction of, the Clark County Treasurer for the safekeeping of securities.
    - b) The market value of collateral pledged must be maintained at 102% of the value of the repurchase agreement, plus accrued interest. Collateral for mortgage-backed (CMO) repurchase agreements will be priced at 105% of market value, plus accrued interest.
    - c) The only eligible collateral for repurchase agreements will be direct obligations of the U.S. Treasury and/or U.S. Government Agency obligations and/or U.S. Government instrumentality obligations.
    - d) The market value of the securities used as collateral for repurchase agreements shall be monitored daily by the Treasurer's staff and by a third-party custodian. If any deficiencies are discovered, they shall be corrected within one day. If the deficiencies are not corrected within one day, the procedures defined in the Repurchase Agreement contract will be followed to cancel the Repurchase Agreement.
    - e) The right of collateral substitution is granted provided only authorized securities are used.
  7. The Treasurer may invest in **reverse repurchase agreements** with primary dealers

purchased under the terms of a signed Bond Market Association (BMA) Master Repurchase Agreement. The primary dealers and the third-party custodian must meet the same credit rating criteria as described under “Repurchase Agreements.” The following guidelines apply to all reverse repurchase agreements:

- a) If reverse repurchase agreements are used as an income generation strategy, the term of the reinvestment of these funds will match the term of the underlying reverse repurchase agreement.
- b) If reverse repurchase agreements are used as an emergency borrowing measure, the transaction can only occur after it has been approved by the Treasurer and the Treasurer’s Investment Strategy Committee (TISC) which is defined in section XIX.
- c) Reinvestment of the proceeds from a reverse repurchase agreement shall be no longer than 14 days more or less than the term of the agreement. The reinvestment of proceeds must closely match the term of the reverse repurchase agreement.

**8. Washington State Local Government Investment Pool (LGIP)** - the LGIP shall provide a copy of their investment policy and complete a questionnaire. The questionnaire will include the following information:

- a description of eligible investment securities, and a written statement of the policy and objectives of the investment program;
- a description of how interest and fees are calculated, and how gains and losses are treated;
- a description of how securities are safeguarded, how often the securities are priced and the program audited;
- a description of who may invest in the program, how often, what size of deposits and withdrawals are allowed ;
- a schedule for receiving statements and portfolio listings;
- information about reserves, retained earnings, etc.;
- a description regarding the process of investing bond proceeds in the LGIP.

**9. Municipal Investment Accounts (MIA)** can be invested in with financial institutions qualified by the Washington Public Deposit Protection Commission.

**10. Variable Rate and Structured Notes.** The use of variable rate notes (VRNs) is considered prudent in the management of the portfolio provided the following criteria are met:

- a) The rate on the VRN resets with a frequency that produces a close tracking with money market rates.
- b) The VRN is indexed to a money market rate such as Federal Funds, the three-month Treasury Bill, or LIBOR, that correlates very highly (95% or greater)



with overall changes in money market rates even under wide swings in interest rates.

- c) Any cap on the interest rate is at least 15% (1500 basis points) higher than the coupon at the time of purchase.
- d) The Treasurer will not use "exotic" derivatives such as range notes, dual index notes, inverse floating rate notes, and deleveraged notes (notes linked to a multiple of an index where the multiple is less than one), or notes linked to lagging indices, or to long-term indices.
- e) For the purposes of calculation of average daily maturity, the next reset date of VRNs will be the maturity date.

**11. Deposit Notes.** The Treasurer may invest in Deposit Notes if the Deposit Note is a debt instrument (promissory note) of a bank or bank holding company. The Deposit Note must be purchased on the secondary market, it must have a long-term credit rating of "Aa" or equivalent and a short-term credit rating of "A1/P1" by at least two of the major credit rating agencies, or be insured or guaranteed by an agency of the federal government or by private issuer authorized to do business in the state of Washington, and provided that the Deposit Notes that are insured or guaranteed by a private insurer also are backed by a pool of mortgages equal to the amount of the Deposit Notes (RCW 39.60.050).

The Treasurer may not invest in "Certificates of Deposit Notes" (negotiable certificates of deposit) issued by banks located outside of the state of Washington.

**12. Registered Investment Companies (Mutual Funds).** Mutual Funds and Money Market Funds are an acceptable investment type subject to the arbitrage provisions of Section 148 of the federal Internal Revenue Code. If bond covenants permit investment in mutual funds, the Treasurer may invest in shares in money market mutual funds that invest exclusively in the securities specifically permitted under this investment policy and that are similarly diversified provided that the fund is rated "AAm" or "AAm-G" or better by Standard & Poor's Corporation or equivalently by other rating agencies. The fund must also be properly registered for sale in the state of Washington.

**13. Registered Warrants.** The Treasurer may invest in registered warrants issued by the County or the junior taxing districts within Clark County; however, these registered warrants may only be purchased with County funds separate from the Clark County Investment Pool (RCW 39.59.020).

14. **Bonds.** The Treasurer may invest in bonds of the State of Washington and any local government in the State of Washington, which have at the time of investment one of the three highest credit ratings of a nationally recognized rating agency, or other notes or bonds issued by other states as defined in RCW 36.59.020.

15. **Securities Lending.** The Treasurer may select one or more firms to provide securities lending management services. Securities lending services will include, but are not limited to the following:

- a) The Treasurer may lend securities only to primary dealers who have a long-term credit rating of "A" or better by two NRSROs. The third-party custodian must also maintain an "A" long-term credit rating.
- b) Clark County must enter into a written agreement with the lending agent, and must enter into the industry standard agreement with any borrower. Clark County must receive indemnification from the lending agent for borrower default and any losses resulting from the agent's negligence or failure to comply with written instructions from the County.
- c) All loans of securities must be supported by collateral valued at not less than 102% of market value of the securities, including accrued interest.
- d) Procedures will detail the restrictions permitted on "mismatch" of the loan and the reinvestment of cash collateral.
- e) Provide next day liquidity for all securities on loan, as required.
- f) Provide monthly accounting, performance, compliance, management reports, and other reports as required by the treasurer.
- g) Reinvestment of proceeds of securities lending for cash collateral must be done as an investment according to the restrictions of this policy but only count against the limit on reverse repurchase agreements at fiscal year end.
- h) Collateral accepted by a securities lending agent must conform to the collateral requirements of this policy, and must be equal to no less than 102%.
- i) Collateral must be held by an independent third-party custodian with whom the Treasurer has entered into a custodial agreement.
- j) All securities transactions are to be conducted on a delivery-versus-payment (DVP) basis only, and trades must have a confirm/safekeeping receipt provided to the Treasurer's Office.

16. **Forward Delivery Agreement.** A forward delivery agreement (FDA) is an investment agreement between the provider (broker), trustee (holder of the securities, safekeeping custody), and the investor (Clark County Treasurer's Office, on behalf of the

County or junior taxing participant). Under an FDA, the provider agrees to provide certain “eligible securities” to the escrow agent for the account of the investor at a guaranteed rate of return, and the escrow agent agrees to purchase those securities from the investor. Because they provide a guaranteed rate of return or yield, FDAs are often used for bond proceeds and/or debt service reserve funds that are subject to yield restrictions or arbitrage rebate, but may be used for any fund when the goal is to achieve a guaranteed yield. The participant must agree to a specified “cash flow” schedule for depositing and withdrawing money from the invested fund and may be subject to a penalty for early withdrawal. The FDA is secured by the “eligible securities” which will be owned by the Clark County Treasurer’s Office as the participant’s Treasurer.

- a. Procedure - The Participant will work closely with the County in the creation of the FDA.

When the FDA is established, the following items will be addressed:

- (1) define the eligible securities (which must be authorized investments under the Clark County Investment Policy),
- (2) solicit a broker (who must meet the requirements of the Clark County Investment Policy),
- (3) enter into an escrow agreement,
- (4) participant must specify a “cash flow” schedule,
- (5) specify the securities’ purchase dates and amounts,
- (6) understand the yield quote,
- (7) describe the terms and conditions under which the FDA may be terminated prior to its originally scheduled maturity date,
- (8) describe each party’s rights and obligations in the unlikely event of a default by any party,
- (9) other recommendations pursuant to legal counsel and investment/financial advisor input.

Any legal, broker, and/or trustee fees associated with executing the FDA will be the responsibility of the Participant and not the Clark County Treasurer or Clark County.

In the event the Participant needs cash earlier than an investment will be maturing within the FDA dates, the Participant will notify the County immediately as to exactly how much money is needed and the date. If the Participant does not have sufficient liquidity, an analysis will be performed by the County in communication with broker to sell an investment early. Any penalty and/or fees associated with this will be the responsibility of the Participant.

When the investments mature with the FDA, and are not completely used immediately for expenses, the money will be invested in Clark County’s Investment Pool.

- b. Fees - The Participant will be responsible for actual fees incurred by Clark County Treasurer’s staff in the development and execution of the FDA. These

expenses will be charged as incurred.

17. All other investments authorized by law.

### **IX. Collateralization, Safekeeping, and Custody**

All investment securities purchased by the County or held as collateral on either deposits or investments shall be held in third-party safekeeping at a financial institution (to be designated as the “Custodian”) qualified to act in this capacity. All securities held for the County account will be held free and clear of any lien and all transactions will be conducted on a delivery-versus-payment (DVP) basis. The Custodian shall issue a safekeeping receipt to the County listing the specific instrument, rate, maturity and other pertinent information. On a monthly basis, the custodian will also provide reports that list all securities held for the County, the book value of holdings, and the market value at month-end. Appropriate County officials and representatives of the Custodian responsible for, or in any manner involved with, the safekeeping and custody process of the County shall be bonded to such a degree as to protect the County against losses from malfeasance and misfeasance.

### **X. Diversification**

The portfolio shall be structured to diversify investments to reduce risk of loss resulting from over-concentration of assets in a specific maturity, a specific issuer or a specific type of security. The maximum percentage of the portfolio permitted in each eligible security is as follows:

Type of Security	Credit Standards	Maximum Percentage Permitted
U.S. Treasuries	NA	100%
Federal Agencies (Fixed Rate)	NA	100%
Federal Agencies (VRNs)	NA	10%
Banker's Acceptances	A1/P1	25%
Commercial Paper	A1/P1 and "A" or equivalent	25%
Municipal Investment Accounts		65%
Non-negotiable Certificates of Deposit		40%
Repurchase Agreements	"A" if maturity < one week, "AA" if maturity > one week	100% overnight or 30% if maturity > than 30 days
Reverse Repurchase Agreements	Same as Repo	10%
Mutual Funds Qualified Register With Washington State	Registered with the State of Washington	15%
Securities Lending	"A" or equivalent	25%
Deposit Notes	A1/P1 and "AA" or equivalent	25%
WA State Municipal Bonds	"A" or equivalent	20%
Washington State LGIP	NA	65%

The County's Portfolio will be further diversified to limit the exposure to any one issuer. **No**

**more than 5% of the County's portfolio will be invested in the securities of any single issuer with the following exceptions:**

Type of Security	Maximum Percentage Permitted
U.S. Government Obligations	100%
U.S. Agency Obligations	25% per issuer
Repurchase Agreement Counterparties	20% per provider overnight/ 10% per provider if > 1 day
Non-negotiable Certificates of Deposit	10%
Financial Institutions that offer both non-negotiable Certificates of Deposit and Municipal Investment Accounts	30%
Qualified Mutual Funds Register With Washington State	15%

## **XI. Maximum Maturities**

Maintenance of adequate liquidity to meet the cash flow needs of Clark County and its junior taxing districts is essential. Accordingly, the securities in the portfolio will be structured in a manner that ensures sufficient cash is available to meet anticipated cash flow needs, based on historical information. Any cash in excess of that necessary to meet the anticipated needs may be invested with the following maturity limitations:

Type of Security	Maximum Maturity
Any single security (unless matched to a specific cash flow requirement)	5 years
Repurchase and Reverse Agreements	90 days
Commercial Paper	180 days
Banker's Acceptances	185 days
Forward Delivery Agreement	3 Years

The Treasurer operates an external investment pool. The maximum average maturity of the external investment pool cannot exceed one and one-half (1 ½) years. In the future, the Treasurer may offer the option to invest in a short-term pool, which will have an average maturity of 90 days, or in an intermediate pool with an average maturity of two (2) years.

## **XII. Internal Control**

The Clark County Treasurer shall establish and monitor a set of written internal controls designed to protect Clark County and its junior taxing districts' cash and cash equivalent assets

and ensure proper accounting and reporting of the investment transactions. Such internal control policy statements shall include, but not be limited to:

- The use of third-party custody and safekeeping;
- The execution of all securities transactions on a delivery versus payment basis;
- The clear delegation of investment authority;
- The separation of transaction authority from record keeping;
- The use of objective criteria in selecting financial institutions and dealers authorized to provide investment services to the county;
- The use of objective criteria in awarding investment purchases and sales to authorized financial institutions and dealers.

The Treasurer is subject to an annual independent review of its internal controls by the Washington State Auditor, however, the Washington State Auditor is not required to annually audit the Treasurer. This review will provide internal control by assuring compliance with all state and federal statutes and the policies and procedures.

### **XIII. Performance Standards**

The investment portfolio shall be designed with the objective of obtaining a market average rate of return throughout budgetary and economic cycles that corresponds with investment risk constraints and cash flow needs.

Clark County's investment strategy is generally expected to take an active management approach. For purposes of evaluating Clark County's investment performance, the Treasurer uses the following indices:

- the Washington State LGIP;
- a nationally recognized short-term mutual fund;
- a customized Book Value Return Treasury Index; and
- a customized Treasury Total Return Index.

### **XIV. Bond Proceeds**

Clark County shall comply with all applicable sections of the Internal Revenue Code of 1986; Arbitrage Rebate Regulations and bond covenants concerning investment of bond proceeds.

### **XV. Reporting**

The Treasurer requires staff of the Treasurer's Office to report investment activity on funds under his/her management on a daily, weekly, monthly, quarterly, and annual basis to appropriate individuals. Reports will be distributed to the various oversight committees and to the Clark County Investment Pool participants as appropriate, and will be readily available upon request. Examples of reports are:

- investment purchases and sales;

- investment income received;
- realized and unrealized gains and losses;
- weighted average maturity of the portfolio;
- percentage of portfolio by issuer, by type of security, and by maturity sector;
- portfolio balances, stated at cost and market value;
- portfolio yields;
- portfolio performance compared to established benchmarks;
- investment strategies; and
- a report on current economic conditions.

## **XVI. Finance Committee Membership and Purpose**

By statute, the Finance Committee consists of the Treasurer as Chair, the Auditor as Secretary, and the Chair of the Board of County Commissioners. The committee shall approve the investment policy and shall make all appropriate rules and regulations to carry out the provisions of RCW 36.48.010 through 36.48.060. The Finance Committee operates under the Open Public Meetings Act. Members of the County Finance Committee shall adhere to RCW 42.17.245 by disclosing annually to the Public Disclosure Committee, any financial interest in institutions in which public funds were invested.

## **XVII. Investment Advisor**

Clark County may use an investment advisor, depending on budgetary constraints, on at least an annual basis. The role of the Investment Advisor is to provide technical advice to the Treasurer and staff in managing the County's investment portfolio. Some of the items the Treasurer requests the Investment Advisor to review include:

- evaluating the current portfolio and investment strategy, and describing any changes which should be made;
- determining if internal controls, market analysis, portfolio analysis, and reporting practices are adequate; and
- evaluating the Investment Policy and Procedures Manual.

## **XVIII. Intergovernmental Investment Pool Committee**

The Intergovernmental Investment Pool Committee's (IIPC) purpose is to assist in reviewing the investment strategy and in sharing and distributing information to other pool members regarding pool strategy and the need for cash management information from the participants. The IIPC is composed of appropriate pool participants from the junior taxing districts. The IIPC generally meets once a quarter prior to the County Finance Committee meeting.

## **XIX. Treasurer's Investment Strategy Committee**

The Treasurer's Investment Strategy Committee (TISC) is made up of the Treasurer, Deputy Treasurer, Finance Manager, Asset/Liability Manager, and Senior Accountant. TISC meets



routinely to discuss investment strategies, economic conditions, analysis of yield curve shifts, possible Federal Reserve Board actions, cash flow forecasts, spreads on various investment instruments, and other relevant information relating to investments.

## **XX. Clark County Investment Pool**

The Clark County Treasurer invests funds collectively in order to better meet investment objectives. RCWs 36.29.020, 36.29.022, and 36.29.024 provide statutory authority for the Treasurer to operate a pooling program. The purpose of the Pool is to allow political subdivisions to pool funds available for investments in order to achieve a potentially higher yield.

All Pool participants must sign an interlocal agreement with Clark County to participate in the Clark County Investment Pool.

### Interest

Interest is distributed based on the daily balance a fund maintains in the Pool, and is calculated using the actual number of days in the month, based on a 360-day year. The total interest distributed to Pool participants will be the total accrued interest earned on securities held for the Pool, during the month of the interest allocation. Realized gains and losses on securities sold before their maturity date will be factored into the total interest allocation during any month these gains and losses are realized, and will be distributed to **all** Pool participants. Interest will be paid on the last calendar day of each month, and will be automatically reinvested as principal.

### Unrealized Gains and Losses

The Clark County Investment Policy establishes the parameters for purchasing/selling investment securities for the Clark County Investment Pool. The Pool is managed in a way that strives to maintain a constant Net Asset Value (NAV) of \$1.00. (However, it is recognized that there can be no assurance that the Treasurer will be able to maintain a constant NAV because of the long-term nature of the Pool.) Therefore unrealized gains and losses will be distributed to all Pool participants at the end of each quarter. The current practice is to distribute unrealized gains/losses at the month end for the following months: March, June, August and December.

### Investment Fee

Clark County Treasurer will charge an investment fee based on RCW 36.29.024. The investment fee will be calculated based on the daily principal balance maintained in the Pool. The rate of the investment fee is reviewed semi-annually, and may fluctuate due to the actual average principal balances being maintained in the Pool differing from the projected balances. This rate is determined by the **actual costs** of running the Pool, and is set by the Treasurer.

### Withdrawal Provisions

All Pool participants will be required to provide 90 days written notice if they are going to sell investments in the Pool and request that the money be invested in a security or securities outside

of the Pool. If a participant requests money in less than 90 days, the fund of the participant will be charged a penalty based on a sliding scale depending on how much prior notification is given. The purpose of the penalty is to provide a mechanism that will maintain the stability of principal assets of the Pool. Penalties charged to participants will be distributed to all participants of the Pool on the same basis as interest allocation.

#### Bond Proceeds

The Clark County Investment Pool qualifies as an acceptable commingled fund for arbitrage purposes (see section 148(f) of the Internal Revenue Code of 1986). The Pool will accept bond proceeds subject to arbitrage rebate.

#### **XXI. Investment Policy Adoption**

This Investment Policy shall be adopted by vote of the County Finance Committee, and any modifications to it shall be similarly approved.

Approved by the Clark County Finance Committee this \_\_\_\_\_ day of \_\_\_\_\_, 2006.

Marc Boldt  
Chair, Board of the County Commissioners

Doug Lasher  
Clark County Treasurer

Greg Kimsey  
Clark County Auditor

## **XXII. Glossary**

**Active Management Investment Strategy:** The use of investment strategies designed to increase portfolio values by exceeding market average rates of return. This can be achieved by using active portfolio management techniques such as swaps and spreads. Active management is characterized by the trading of securities prior to maturity.

**Agencies:** Federal Agency Securities

**Asked:** The price at which securities are offered for sale.

**Banker's Acceptances (BA):** A draft of bill or exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

**Bid:** The price a seller is requesting. (When you are selling securities, you ask for a bid). See Offer.

**Bond Market Association (BMA) Master Repurchase Agreement:** A standard written contract covering all future transactions between the parties to repurchase-reverse repurchase agreements that establishes each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower.

**Book Value Return:** Measures the yield at which securities in the portfolio were originally purchased, adjusted for realized gains or losses.

**Broker:** A broker brings buyers and sellers together for a commission.

**Certificate of Deposit (CD):** A time deposit with a specific maturity evidenced by a certificate.

**Collateral:** Securities, evidence of deposit or other property, which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

**Comprehensive Annual Financial Report (CAFR):** The official annual report for Clark County. It includes five combined statements for each individual fund and account group prepared in conformity with GAAP. It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory material, and a detailed Statistical Section.

**Coupon:** (a) the annual rate of interest that an issuer of a bond promises to pay the bondholder on the bond's face value. (b) A certificate attached to a bond evidencing interest due on a payment date.

**Credit Risk:** The loss due to failure of the issuer of a security.

**Credit Rating Definitions:**

Long-term			
	Moody's	Standard & Poor's	Fitch
Highest Quality	Aaa	AAA	AAA
High Quality	Aa	AA	AA
Upper-medium-grade	A	A	A
Medium-grade	Baa	BBB	BBB
Speculative elements	Ba	BB	BB
Lack investment characteristics	B	B	B
Issues in default	Caa	CCC	CCC
Speculative in a high degree	Ca	CC	CC
Lowest rated class of bonds	C	C	C
Debt in default		D	D

Short-term (less than 365 days)			
	Moody's	Standard & Poor's	Fitch
Superior ability for repayment	P-1	A-1	F-1
Strong ability for repayment	P-2	A-2	F-2
Acceptable ability for repayment	P-3	A-3	F-3
Adequate capacity for payment		B	F-S
Doubtful capacity for payment		C	D
Issue in default		D	

Moody ratings from Aa to C may be modified by 1, 2, or 3 to show relative standing within the major rating categories. For example: Aa3.

S&P and Fitch ratings from AA to B may be modified by the (+) or (-) to show relative standing within the major rating categories. For example: AA+.

**Dealer:** A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

**Debenture:** A bond secured only by the general credit of the issuer.

**Derivative Security:** A financial instrument created from, or whose value depends upon, one or more underlying assets or indexes of asset values.

**Delivery Versus Payment:** There are two methods of delivery of securities: delivery versus payment and delivery versus receipt. Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

**Discount:** The difference between the cost price of a security and its maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.

**Discount Securities:** Non-interest bearing money market instruments that are issued at a discount and redeemed at maturity for full face value, i.e. U.S. Treasury Bills.

**Diversification:** Dividing investment funds among a variety of securities offering independent returns.

**Federal Credit Agencies:** Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, i.e. S&L's, small business firms, students, farmers, farm cooperatives, and exporters.

**Federal Deposit Insurance Corporation (FDIC):** A federal agency that insures bank deposits, currently up to \$100,000 per deposit.

**Federal Funds Rate:** The rate of interest at which Fed funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

**Federal Home Loan Banks (FHLB):** The institutions that regulate and lend to savings and loan associations. The Federal Home Loan Banks play a role analogous to that played by the Federal Reserve Banks vis-a-vis member commercial banks.

**Federal National Mortgage Association (FNMA):** FNMA, like GNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

**Federal Open Market Committee (FOMC):** Consists of seven members of the Federal Reserve Board and 5 of the 12 Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member, while the other Presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of Government Securities in the open market as a means of influencing the volume of bank credit and money.

**Federal Reserve System:** The central bank of the United States created by Congress and consisting of a seven member Board of Governors in Washington, D.C., 12 regional banks and about 5,700 commercial banks that are members of the system.

**Government National Mortgage Association (GNMA):** Securities influencing the volume of bank credit guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations, and other institutions. Security holder is protected by full faith and credit of the U.S. Government. Ginnie Mae securities are backed by the FHA, VA, or FMHM mortgages. The term "passthroughs" is often used to describe Ginnie Mae's.

**Interest Rate Risk:** The risk associated with declines or rises in interest rates, which cause an investment in a fixed-income security to increase or decrease in value.

**Liquidity:** A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes.

**Local Government Investment Pool (LGIP):** The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

**Market Risk:** The risk that the value of a security will rise or decline as a result of changes in market conditions.

**Market Value:** The price at which a security is trading and could presumably be purchased or sold.

**Master Repurchase Agreement:** A written contract covering all future transactions between the parties to repurchase-reverse repurchase agreements that establishes each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower.

**Maturity:** The date upon which the principal or stated value of an investment becomes due and payable.

**Money Market:** The market in which short-term debt instruments (bills, commercial paper, banker's acceptances, etc.) are issued and traded.

**Net Asset Value (NAV):** The NAV is determined by dividing the value of the net assets of the pool (assets less liabilities) by the total number of shares outstanding.

**Offer:** The price asked by a seller of securities. (When you are buying securities, you ask for an offer.) See Asked and Bid.

**Open Market Operations:** Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank as directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit; sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.

**Passive Investment Strategy:** If the governing body does not wish to allocate resources or encourage the staff to seek optimizing adjustments, a buy-and-hold investment strategy would be utilized. This method may not optimize total return and could involve a sacrifice of yield.

**Portfolio:** Collection of securities held by an investor.

**Primary Dealer:** A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC)-registered securities broker-dealers, banks, and a few unregulated firms.

**Prudent Investor Rule:** An investment standard. In some states, the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the custody state--the so-called legal list. In other states the trustee may invest in a security if it is one that would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

**Public Deposit Protection Commission (PDPC):** The PDPC consists of the State Treasurer, as Chairman, the Governor, and the Lieutenant Governor. The Commission is empowered to request a qualified public depository to furnish information on its public deposits and the exact status of its net worth. The Commission is further empowered to take any action deemed advisable for the protection of public funds and to establish procedures for collection or settlement of claims arising from loss.

**Qualified Public Depositories:** A financial institution, which does not claim exemption from payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability, and which has been approved by the Public Deposit Protection Commission to hold public funds.

**Rate of Return:** The yield obtainable on a security based on its purchase price or its current market price.

**Repurchase Agreement (RP or Repo):** A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate him for this. Dealers use RP extensively to finance their positions. Exception: When the Fed is said to be doing RP, it is lending money, that is, increasing bank reserves.

**Safekeeping:** A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

**Secondary Market:** A market made for the purchase and sale of outstanding issues following the initial distribution.

**Securities & Exchange Commission:** Agency created by Congress to protect investors in securities transactions by administering securities legislation.

**Total Return:** Measures the increase in value of the overall portfolio over a given period (including income earned and adjustments for deposits/withdrawals). Total return enables portfolio managers to evaluate fluctuations in the value of principal, rather than simply the income produced. Total return effectively measures performance when swaps have been executed in the portfolio.

**Treasury Bills:** A non-interest bearing discount security issued by the U.S. Treasury to finance national debt. Most bills are issued to mature in three months, six months, or one year.

**Treasury Bonds:** Long-term U.S. Treasury securities having initial maturities of more than 10 years.

**Treasury Notes:** An interest bearing coupon security issued by the U.S. Treasury to finance the national debt. Interest is payable every six months at a rate of one-half the annual coupon.

**Yield:** The rate of annual income return on an investment, expressed as a percentage.